Approved For Release 2001/08/30 : CIA-RDP78-03089R000100010010-3

Agenda

1) Report on Survey of accounting and computer programing problems.
(Reach conclusion re feasibility & Time required!)

2) Report on discussions with members of TVA Retirement System Board
a) Concern & embarrassment over poor performance of Fidelity Trend
b) Repercussions from the success of variable annuity plan. Workers complaining they were misled or even encouraged not to go into variable annuities because only a few years to go. Didn't realize that annuities could continue to grow after retirement
c) Worried about making decisions. If they drop Fidelity Trend & pick another what will happen if new fund falls on face & Fidelity does well?

STATINTL

3) [redacted] proposal
Studies have convinced me that only growth & ~~income~~ common stock income funds are worth considering. Illustration Puritan Income fund has been a leader quite consistently in income. It also oddly enough

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in 10 yr span ending Dec 31 67 was 31st among all funds in growth. The reason is quite clear. As glamour stocks + high multiple PE stocks loose drawing power the utility and low PE industrials rise in price.

I propose we offer 4 funds - 2 growth-appreciation funds + 2 income-growth funds. One fund in each group be a load + one a no load.

Every investor has clear choice between conservatism or long term speculation. Also clear choice between load or no load.

Major function + responsibility of Trustees would be

a) To select the funds to be offered.
b) To review results of fund operations as to effectiveness relative to their stated investment goals.
c) To Terminate investment in any fund held to be inadequate in performance
d) To select + offer a replacement fund.

giving participants option ① to hold shares acquired without further invest. ② To liquidate + transfer to other funds

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Comments

1) Large funds "Group A" were clearly outperformed as a group in 1968, 1967 5 yrs + 10 yrs. by smaller funds. Enterprise + Value Line Special are the outstanding exceptions. One no load "American Investors" has done very well (10 yr = 3rd)(5 yr = 3)(1967 = 6th)(1968 = 5th)

a) Note enterprise is heavy in bonds - probably purchased at heavy discounts. If any deflation occurs they will make a killing

Recommend
Amer. Investors
Enterprise
Value Line Special / Sit

2) Smaller Growth

a) Note how the very new funds tend to lead the pack
Gibraltar, New with, Penn Mutual
b Recommend

Scudder Special (no load
New with no load (Pretty new + untried)
Gibraltar no load
Winfield Growth
Chase of Boston
Axe Houghton

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3) Growth and Income

This compromise category doesn't seem to pay off - either in income or appreciation Note group averages are clearly lower excepting only 1968 & return not significantly better No outstanding exceptions - middle of roaders. Recommend forget this group

4) Group II Dives Common Stock G+I or GIS

Performance in income is Less than 3% Growth is only a little over 100% in 10 yrs.

Recommend - forget this group.

5) Balanced Funds - Forget it - neither fish nor fowl.

6) Income Funds

Income funds clearly meeting objectives. Not only is return ove 3.5% on average but growth is very respectable. For persons who need income - who are approaching retirement we must have income funds.

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1) Obtained narrative of their Index Stock program
2) 1 copies of work sheets showing typical transactions in a months time
3) TVA using 1401 - 6 programs 2600 source cards
4) TVA permits retirees or terminees to retain Index stock equity for up to 5 years. This a pretty good deal but I don't see real reason for doing so. It does provide up to 5 yrs of tax shelter + there is a "break" for the employee. Also gives individual choice to pick the year for paying his capital gains
5) Possible problem of switching between funds ! / too frequent a real administrative headache. Suggest a) Transfer charge 2) Limit number of transfers/yr. 3) Prohibit except during an open period

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Why mutual Funds

1) Broad diversification in securities representing cross section of industry
2) Full time professional management - when to buy when to sell
3) Automatic reinvestment of dividends + capital gains
4) Dollar averaging can be an automatic feature of Investment of same number of $ → Down buy more shares - market up fewer shares. Causes cost/share to always be below average market value of shares
5) Mutual Funds operate in a governmental fish bowl of regulations aimed at investor safety
6) Convenience
7) Liquidity - redeemed at net asset value at anytime.
8) Information - full information on holding + performance readily available

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CIA Pension Trust

Options:

1) Place Trust funds with others to manage.
2) Management by Trustee or by person under Trustee authority + control
3) Direct placement in established external Mutual Funds

These are not basic retirement funds - rather are voluntary investment funds of individuals. Goals must be presumed to be: Preservation of capital against inroads of inflation - desire to participate in growth of US economy. Ergo individuals are significantly interested in equity investments, an opportunity to follow their own economic judgments, a chance to perhaps make large gains

A choice of mutual funds seems to best satisfy objectives of individuals. Reduces responsibility for operation of pension trust. Minimizes manpower involvement. Gives best options in payout. Permits ready + accurate assessment of financial positions by individual.

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How many categories of Mutual Funds should be made available??

Answer Fundscope recognizes 7 categories but most literature and thinking on subject is limited to 3 - Income, Income & Growth, Growth. Recommend we offer 3 - one in each category but drop if demand is too small to warrant.

Perhaps we could offer as many as 5 Income, 2 growth & income & 2 growth and state we will use the 3 in greatest demand -

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Investment Media.

Issues

1) How much emphasis should be given to the objective of acquiring minimal load (sales commission) rates?

Answer: ① At most we are probably talking about the difference between 1% and 2½ or 3%. Since even if we offer 4 or 5 funds volume of any one will probably attain the 3% load level.

② Moreover even if purchases commence at 3% level or thereabouts cumulative purchases will apply to pension trust etc accounts & rate will soon drop to lower rates.

③ Argument is raised that you get what you pay for. The sales load almost becomes a selling point. I don't buy it. Management fee not affected by sales load so why should not performance be affected.

2) How much option should be given participant-

I think he should not be forced into go go funds if he doesn't want to. This means he must have option of at least 2 funds or balanced fund.

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Investment Media

Issues To be resolved quickly

a) Media

① Trustee Mgt with professional investment counseling?
no! lack expertise, lacks appeal to participant, Too risky

② Place fund under professional management
Inexpensive, lacks appeal. Individual can only evaluate results periodically

③ Multiple Mutual Funds -
a) Opportunity for each investor to allign to his objectives (high income if conserv and approaching retirement. Growth - if interested in long term. Growth + Income if prefer balanced less market swing
b) Has appeal. Individual can follow his fortunes in paper

④ A single Mutual Fund
Forces all participants into same model objectives?
Simplifies starting plan. Could add more later.
FIRST MULTIFUND OF AMERICA INC

Other hand

People can save in Credit Unions, US Savings Bonds etc
If going to get into equities. why not speculate.

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